

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of _____)	
High-Cost Universal Service Support)	WC Docket No. 05-337
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	

ALLTEL COMMENTS

Alltel Communications, Inc. ("Alltel") submits these comments in response to the Federal-State Joint Board's Public Notice, FCC 06J-1 (rel. Aug. 11, 2006), regarding the use of auctions to determine high-cost universal service support.

Executive Summary

- **Auctions Could Be Used To Reform the High-Cost Support System.** Alltel supports consideration of competitive bidding to determine high-cost support levels. If properly designed, auctions could effectively replicate a forward-looking cost methodology to set support amounts.
- **Auctions Must Not Impede Marketplace Competition.** Auctions should not be used to select one or a limited number of eligible telecommunications carriers ("ETCs") that can provide supported universal service to rural consumers. Marketplace competition, not bidding competition in a regulated auction, is the most effective way to ensure consumer benefits.
- **Competitive and Technological Neutrality.** Auctions should not be structured to favor one class of carriers over another. An equal amount of funding per line must be disbursed to all ETCs in an area.
- **Transition Plan.** A transition plan from the present system of support to an auction-based system should be implemented uniformly for all carriers currently receiving funds.

Background

- Alltel's Commitment to Serving Rural America.

Alltel is the nation's largest independent wireless carrier that focuses on serving consumers in high-cost rural areas. Alltel provides high-quality universal service over a wireless platform to more than 11 million consumers in 35 states. Alltel operates America's largest wireless network, and it serves some of the least populated areas of the country, where the economic cost to provide consumers with quality service is much higher than in urban areas. Universal service support enables Alltel to deploy facilities deep into these sparsely populated areas, and makes it possible for consumers in those areas to obtain robust wireless services that otherwise would be unavailable. Alltel has been designated as an Eligible Telecommunications Carrier ("ETC") in 28 states, and uses universal service support to provide basic and enhanced communications services to rural consumers in these states.

Alltel remains committed to providing high quality communications services to rural Americans and seeks to ensure that sufficient support remains available to accomplish this objective through any universal service reform that is ultimately adopted.

- The Benefits of Wireless Universal Service. The Commission, federal courts, and other leading policy-makers have consistently recognized the substantial public policy benefits of using universal service funds to promote the provision of wireless service for rural Americans.^{1/}

- Economic Development. Wireless service is critical to economic development in rural America – and mobile 911 is a vital health and safety service, especially for people who frequently have to travel long distances.
- Facilities-Based Service. Alltel and other wireless carriers are bringing facilities-based service to rural areas, which, until wireless carriers began receiving universal service support, had been an unfulfilled goal of the 1996 Telecom Act.^{2/}
- Access To Services That Consumers Need. High-cost support enables wireless carriers to provide service to rural areas that consumers rely on and need. Increasingly wireless service is the communications of choice for consumers, much like wireline service was years ago, but universal service support is necessary to make wireless service universally available to all consumers.
- Low Income Consumers. Lifeline/Link-Up support enables low income consumers to access a wider range of affordable wireless services.
- Competitive Neutrality. The Senate Report accompanying Section 253 to H.R.5252 (Sept. 30, 2006) aptly makes it clear "that the Commission should not unfairly favor one technology or provider over another. For example, the Commission should not favor wireline providers over wireless providers."

Universal Service Reform

- **Any Reform – Including a Competitive Bidding System – Must Comply With the Act and Promote the Fundamental Policy Goals of Universal Service.**
 - *Consumer Access to High-Quality Services.* Funds should be targeted to promote rural consumers' access to high-quality, efficiently delivered, telecommunications services.
 - *Sustainability.* The system should ensure the stability of the fund and should avoid unnecessary fund growth.
 - *Competitive and Technological Neutrality.* The system should not be biased toward artificially promoting or impeding any class of carriers' ability to compete. Instead, the system should benefit consumers by enabling competition on a level playing field.

Proposed Auction Design

The following could be considered as a starting point for designing a competitive bidding system for high-cost universal service support:

- **Auctions Could Determine Support Levels.** The lowest competitive bid in an auction process would determine the level of high-cost support funding for all ETCs.
 - *Auctions Should Not Limit the Number of ETCs.* Auctions should not be used to determine or restrict who receives support, or to limit the number of ETCs in any geographic area.
 - *Equal Support Per Line.* All carriers that satisfy the ETC requirements would receive an equal amount of support per line, regardless of which one submits the lowest bid. No carrier's revenues would be guaranteed.
- **Bidding.** All ETCs seeking to receive high-cost support in a particular geographic area would be required to submit a competitive bid. Companies would be required to be designated ETCs prior to submitting bids.
- **A Single Auction System Would Apply to All ETCs.** All ETCs should participate in a single auction structured to be competitively and technologically neutral. There should not be multiple separate auctions for different technologies or classes of carriers.
- **ETC Requirements.** All ETCs must satisfy the service quality and coverage criteria set forth in the statute and the rules. The same set of basic criteria should apply to all ETCs.
 - All ETCs must reasonably provide service to all requesting consumers throughout the service area, consistent with the "carrier of last resort" type obligations in § 214(e)(1).
 - In addition, ETCs may offer varied service packages and offerings above and beyond the basic minimum (e.g., high-speed data, mobility, long-distance plus local rate plans, etc.).

- Transition Plan. Auction-based support should be implemented over a reasonable transition plan (*e.g.*, 3 – 5 years), during which existing funding would be phased out and auction-based funding would be phased in, in order to soften the impact of the change upon ETCs that currently receive support. The same transition rules should apply to all ETCs – ILECs and competitive ETCs.
 - Such a transition plan would moderate the impact of the change upon rural ILECs and other ETCs, help them plan for the changed rules, and enable them to continue to provide service to their customers once the new system takes full effect.

Rationale for Alltel's Proposal

- Competitive and Technological Neutrality.
 - Restricting USF support to auction winner(s), or providing differing amounts of per-line USF support to different ETCs, would distort the competitive marketplace. Such restrictions are unnecessary to obtain the benefits of auctions.
- Low Bidding and Fund Sufficiency.
 - Auction participants would have incentives to submit bids at levels as close as possible to – but not lower than – the minimum necessary to ensure that they have sufficient funds, going forward, to satisfy all the applicable requirements to serve as ETCs.
 - Each auction participant would have an incentive to offer low bids in order to make it more challenging for less efficient carriers to compete effectively. Other ETCs would have strong incentives to operate more efficiently.
 - But no bidder would offer unreasonably low bids, because each bidder, as an ETC, would be required to provide all the required elements of universal service to all consumers throughout the area, consistent with the “carrier of last resort” type obligations in § 214(e)(1).
- Efficient Targeting of High-Cost Funds and Controlling Fund Growth.
 - Economists have long recognized an economically efficient system would set support levels based on the forward-looking cost of providing universal service by the lowest-cost service provider.
 - Competitive bidding could be an effective surrogate for econometric models to determine forward-looking costs. As a result, appropriate amounts of funding would be disbursed based on the efficient costs of serving each geographic area.
 - Setting fund levels based on low bids would target support to where it is truly needed and would avoid unnecessary growth in the fund.

- Benefits to Rural Consumers. *Post-auction, all ETCs would have incentives to offer more appealing services to consumers, including better prices, rate plans, and advanced technologies, in order to maximize both their consumer revenues and their universal service support.*
- Legality. Alltel's plan would comply with the §§ 214(e) and 254(e) requirements to disburse support funds to all ETCs that satisfy the applicable ETC criteria, and to provide competitively neutral, portable per-line support to all ETCs.

Responses to Specific Issues Raised in the Public Notice

- Limiting the Number of Supported Networks (§ 5). The Joint Board should not structure auctions that "limit[] the number of supported networks in each area and select[] the most cost-effective proposals." Rather, as discussed above, competitive bidding should be used to determine cost-effective levels of support but not to restrict consumers' choice among supported service providers.
- Jurisdictional Roles (§ 7). State commissions and the FCC should continue to designate ETCs pursuant to §§ 214(e)(2) and (6), and should oversee compliance as they do today. The FCC should structure and implement the competitive bidding process.
- Supported Areas (§ 8). Auctions should set support levels based on counties or some other competitively neutral geographic unit – not based on the network configurations of one category of carriers (*e.g.*, ILEC wire centers or study areas).
 - Rural Study Areas. Setting the *amount* of support based on counties would not affect rural ILECs' *study areas* based on their preexisting service footprints. Competitive ETCs would continue to be subject to the statutory requirement to serve the entirety of a rural ILEC's study area or a differently defined service area pursuant to § 214(e)(5).
- Optimal Term to Encourage Effective Bidding and Investment (§ 9). The support levels determined through a competitive bidding process should remain in place long enough to ensure the stability of regulatory expectations and promote investment – *i.e.*, no less than 5 years.
- Auction Failure (§ 9). The existing per-line level of high-cost support should be the "reserve price" for the auction. If no ETCs offer lower bids, then the existing per-line support levels should remain in place.
- Quality of Service Obligations and Enforcement (§ 10). As discussed above, existing ETC criteria, "carrier of last resort" type obligations, and enforcement mechanisms would remain in place. An additional procedure involving contracts would be unnecessary and burdensome.

- Multiple Support Winners (§ 11). As discussed above, the lowest bid should establish the level of support for all ETCs, but there should be no limitation on the number of supported ETCs.
- Selection of Winning Bids (§ 12). The lowest bid, based on price, from an ETC that provides adequate service quality and capabilities as required by the applicable rules, should determine the level of universal service support per line for all ETCs.
- Treatment of the Incumbent LEC (§ 13). Both ILECs and other ETCs should have real opportunities to obtain universal service support under a competitive bidding framework. Differential treatment would inhibit competition, harm consumers, and violate the Act.
 - The purpose of universal service is to support consumers in high-cost and rural areas – not to protect ILECs’ revenue streams or guarantee their recovery of historical costs. “Stranded investment” arguments should be addressed, if at all, outside the universal service context and should not be allowed to skew competitive bidding mechanisms.
 - An ILEC that chooses to relinquish its ETC status pursuant to § 214(e)(4) would not be subject to the ETC obligations established by the federal Act and rules.
- “Discussion Proposal” (attachment to Public Notice). This proposal would disserve the public interest and should be rejected by the Joint Board.
 - Two separate auctions based on technology would violate the Act and would destroy intermodal, facilities-based competition between wireless and wireline carriers in rural areas.
 - Limiting support to two ETCs would violate the Act and harm competition and consumers. As discussed above, such a limitation is unnecessary to limit fund growth.
 - Guaranteeing the ILECs an auction victory for 10 years would grant these companies “protection from competition, the very antithesis of the Act.” *Alenco Communications, Inc. v. FCC*, 201 F.3d 608, 622 (5th Cir. 2000). Such a guarantee also would eliminate any incentive for the ILECs to offer low bids and would perpetuate uncontrolled fund growth.
 - Alltel supports structuring auctions based on counties or an equivalent geographic unit. As discussed above, there is no need for a separate system for rural ILECs.

* * * * *

Respectfully submitted,

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¹⁷ See, e.g., *Alenco Communications, Inc. v. FCC*, 201 F.3d 608, 621-23 (5th Cir. 2000) (“The purpose of universal service is to benefit the customer, not the carrier... What petitioners seek is not merely predictable funding mechanisms, but predictable market outcomes. Indeed, what they wish is protection from competition, the very antithesis of the Act.... [P]ortability is not only consistent with predictability, but also is dictated by principles of competitive neutrality and the statutory command that universal service support be spent ‘only for the provision, maintenance, and upgrading of facilities and services for which the [universal service] support is intended.’ ... Indeed, to construe the predictability principle to require the latter would amount to protection from competition and thereby would run contrary to one of the primary purposes of the Act.”). See also *Federal-State Joint Board on Universal Service*, First Report and Order, 12 FCC Rcd 8776, ¶¶ 46-51, 145-47, 286-89 (1996), *subsequent history omitted*; *Federal-State Joint Board on Universal Service*, Ninth Report and Order, 14 FCC Rcd 20432, ¶ 90 (1999); *Federal-State Joint Board on Universal Service*, Twelfth Report and Order, 15 FCC Rcd 12208, ¶ 114 (2000); *Western Wireless Corp. Petition for Preemption of an Order of the South Dakota Public Utilities Commission, Declaratory Ruling*, 15 FCC Rcd 15168, ¶¶ 12-13 (2000); *Virginia Cellular, LLC Petition for Designation as an Eligible Telecommunications Carrier in the Commonwealth of Virginia*, 19 FCC Rcd 1563, ¶ 29 (2003); *Federal-State Joint Board on Universal Service*, 20 FCC Rcd 6371, ¶ 44(2) (2005).

²¹ The FCC recently reported that approximately 8% of U.S. households rely exclusively on wireless service and have no wireline phones. The percentage is even higher – nearly 20% – among consumers who recently purchased mobile phones. *Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, WT Docket No. 06-17, Eleventh Report, FCC 06-142, ¶ 205 (released Sept. 29, 2006). Among consumers that have both wireless and wireline service, 42% rely on wireless as their “primary” phone. *Id.*, ¶ 206. “CMRS providers are competing effectively in rural areas. In addition, some analysts report that wireless competition is increasing in rural areas, particularly as a wireline substitute.” *Id.*, ¶ 88.

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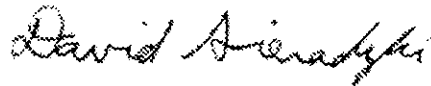
Re: *High-Cost Universal Service Support*, WC Docket No. 05-337;
Federal-State Joint Board on Universal Service, CC Docket No. 96-45

Dear Ms. Dortch:

On behalf of Alltel Communications, Inc. ("Alltel"), I am enclosing the attached position summary as Alltel's initial comments in response to the Federal-State Joint Board's Public Notice, FCC 06J-1 (rel. Aug. 11, 2006), regarding the use of auctions to determine high-cost universal service support.

Please contact me if you have any questions.

Very truly yours,



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Commissioners and Staff Members of the Federal-State Joint Board on Universal Service